



## As Western states' need for power grows, California may get less

### Dependency on western states on shaky ground

For more than a century, California ran a simple account with the rest of the West: It demanded and the West supplied, most especially water and power.

But as the Western states' population has exploded, this supply-demand relationship is breaking down.

Fundamentally, the rest of the West has outgrown its electrical system just as California has its own. And it has done so in very much the same way--by adding too many people without enough new power or conservation.

The booming Southwest has run its power grid at such a fever pitch that its planning reserves--the extra power that utilities build in to handle emergencies--have shrunk to levels that many regulators and industry experts consider dangerous.

Almost none of the West save Montana has increased its power production at anything like the pace of its population growth during the last decade. Despite the long economic boom of the 1990s, which smiled especially on the West, several, such as Arizona, have failed to complete a single new power plant.

In trying to dodge the blackout bullet, many Western leaders are seeking to force a great change on the region: to renegotiate their states' basic deal with California.

Los Angeles' DWP and several other California utilities own parts of many new power plants coming on line in western states, such as their three-quarters ownership of the huge, coal-fired Intermountain Power Project in west-central Utah, and have been drawing on it without incident for 15 years.

But Utah officials recently unearthed a long-forgotten provision in their agreement with the plant's owners that gives them the right, with proper notice, to recall power for local use.

"California has chosen not to create its own power generation and has depended on us to do that," Utah's governor said. "That's fine and we're willing to do that.

"But," he added, "there comes a point at which, if demand grows too large, we've got to hold some of this capacity back for ourselves, and for our children and grandchildren."

If Utah and the rest of the West have reached that point, California could be in for a much bigger and more enduring shock than the one from which it now suffers.

### Speaker Hertzberg on the Governor's announcement

#### Caucus Message Points

Assembly Speaker Robert M. Hertzberg (D-Van Nuys) has made the following statement regarding the Governor's agreement in principle with Southern California Edison:

"I welcome today's announcement by the Governor, signaling that clear progress is being made to ease a crisis that has burdened California.

"While critical details must still be finalized, today's preliminary agreement appears consistent with the framework supported by Assembly Democrats to restore reliability to our electric system while assuring real value for consumers.

"I am particularly pleased that this agreement requires Edison's parent company to foot part of the bill. And the agreement also appears to guarantee more long-term power to Californians at low prices.

"We in the Assembly will continue to work with the Governor to protect Californians from bearing the brunt of deregulation's broken promises, but we must move quickly."

### Plant construction stalled over effort to revise contracts

The construction of a fleet of small power plants--capable of supplying 1 million homes--is being stalled because of a dispute between state officials and the plant builders.

Plans for 29 such plants have been slowed by the state, according to the companies building them. The problem, they say, is that the California Department of Water Resources, which was pushed into the electricity business on an emergency basis last month, is trying to amend 4-month-old contracts for construction of peaker plants.

State officials say the original contracts gave too much to the plant builders, and they want to save the taxpayers money by revising the terms.

Said Davis spokesman Phil Trounstone, "We're providing financial assurances for the generators and protections for California consumers. There's no reason that these guys can't rework these contracts and get these plants up and running on time."

But peaker plant operators say the contract revisions probably will slow down construction.

Last week, Sacramento-based Wellhead Power spokesperson Harold Dittmer found out that the department wants to stretch to 10 years the terms of what had been a three-year contract.

He said he is scrambling to alter land and equipment leases and isn't certain he will get his four power plants installed in the Central Valley by the targets of May and July.

Some of the other companies with contracts to build peakers say they've also been asked to alter their contracts.

"The projects will not be done in June, as originally contemplated," said Dale Fredericks, chief executive officer of DG Power Inc. His company intends to build seven small plants around the state with the combined capacity to supply more than 340,000 homes.

In slowing down the plant construction, the department's action undermines the governor's campaign to quickly expand the state's power production. Two weeks ago, Davis ordered the Energy Commission to offer licensing of such plants in 21 days or less. On Wednesday, the commission published a list of 32 sites around the state that could, by its estimation, quickly and easily accommodate a peaker plant.

"Our target is 1,000 megawatts," said Energy Commission spokeswoman Claudia Chandler.

### **Worse power problems ahead**

If Californians who are enduring relentless power alerts and costly utility bills think they have it rough now, they're in the dark. That's the consensus of many energy experts who say that although the California power crisis might ease slightly in March and April, things are going to get worse this summer. Much worse. Widespread blackouts -- far more severe than anything to date -- may be unavoidable when hot weather begins in four months, government and private energy analysts say.

### **Buying the grid**

Whoever owns the grid will have to keep doing major expansions and upgrades, running into the hundreds of millions of dollars. Any owner legally would be entitled to pass those costs along to consumers through electric rates. The rate impact is generally small -- today, transmission expenses make up a tiny fraction of consumers' electric bills. PG&E, the largest transmission owner in California, so far has been reluctant to part with its 18,000-plus miles of high-voltage lines. Edison has tentatively agreed to sell its part of the grid to the state for \$2.76 billion. Davis also wants to buy the transmission network of the state's other large investor-owned utility, San Diego Gas and Electric Co., which is pursuing talks with the governor. Federal regulators are wary of the plan. Curt Hebert, head of the Federal Energy Regulatory Commission, has called state ownership of power lines "nationalization."

### **Davis call for 10% cut**

Signaling a greater urgency in California's power crisis, Gov. Gray Davis said yesterday that keeping the lights and air conditioners running this summer will require every Californian to reduce electricity usage by about 10 percent. In addition, he said, the state must get more electrical power online by then. His call for a 10 percent cut is a significant

jump from the 7 percent he was asking for during his State of the State speech last month, and it may be a difficult stretch for consumers. Davis made his remarks on NBC's news show "Meet the Press."

### **California not alone – NYC faces power woes too**

Along the East River in Queens, just south of one of the mammoth footings for the Queensboro Bridge towering above, a crane is lifting into place one of the pieces of a small power plant that plainly demonstrates that electricity is not just a California problem. With soaring rates, cash-strapped utilities and threats of rolling blackouts as part of its deregulation legacy, California is getting most of the publicity. Here, against the backdrop of Manhattan, work is progressing at breakneck speed in a desperate race to keep the same issues from spinning out of control this summer.

### **What Others Say**

#### **Robber barons look good when standing next to power providers**

The hardball tactics used by several out-of-state companies that supply critical energy to the state brought some nostalgia to the Capitol last week for earlier, gentler times.

The times of the robber barons.

Senate President Pro Tempore John Burton, D-San Francisco, was the first to make the comparison.

"There's been no one since the days of the robber barons who've gotten away with what they've gotten away with," he said.

More than a century ago, industrialists in steel, oil and railroads manipulated the market to produce skyrocketing profits and instant fortunes.

California had the Big Four, the railroad kings of the Southern Pacific. Sure, they fleeced consumers and the government out of millions of dollars. Their critics called them robber barons.

But at least they were our robber barons.

They built their mansions in California. They founded Stanford University and venerable companies like Crocker Bank. And they built a railroad that played a critical role in developing the state's economy.

It's unlikely that the out-of-state energy companies piling up enormous profits at taxpayer expense are going to do much to help California...

As federal Judge Frank Damrell Jr. put it to a generating company attorney, "You got rich and the utilities went broke." --Bill Ainsworth, *SD Union Tribune*

#### **Davis, GOP and blame game**

... Republican politicians are berating the Democratic governor more and more, trying out a 2002 campaign theme: timid and slow. Many Democratic pols echo these accusations, except in whispers. The citizens? They blame everybody but Davis. They're down on the...Public Utilities Commission, the private utilities...even President Bush, whose message to California was: Solve your own problem. But more often than not, Californians approve of Davis' handling of the mess (49%-37%). --George Skelton, *LA Times*